SUPPLEMENTAL DECLARATION OF MICHAEL T. SKRIVAN IN SUPPORT OF FAIRPOINT COST COMPANIES' PETITION FOR PRICE CAP CONVERSION OF THEIR SPECIAL ACCESS SERVICES AND FOR LIMITED WAIVER RELIEF

WC DOCKET NO. 12-71

I, Michael T. Skrivan, make the following declaration under penalty of perjury, which supplements my Declaration of February 29, 2012 in support of the Petition in the above-captioned proceeding, and responds to questions from Commission staff with whom I met on September 12, 2012:

1. I am Vice President, Regulatory, for FairPoint Communications, Inc. ("FairPoint"). As such, I am familiar with FairPoint's local exchange and exchange access operations generally, and with the accounting, pricing and tariffing practices of its local exchange carrier ("LEC") subsidiaries specifically.

2. The 20 LECs identified in the Petition as the "FairPoint Petitioning LECs," which are the same LECs identified in the Public Notice (DA 12-525) as the "FairPoint Cost Companies," are expected to receive approximately $25 million in frozen support across their 22 study areas in 2012.

3. The FairPoint Cost Companies as well as the FairPoint LECs that converted to price caps from rate-of-return regulation in 2010 are listed on the following table, by state and by study area:

REDACTED – FOR PUBLIC INSPECTION

State	SAC	Study Area Name	PC/ROR	CL/TS Pools	DSL Pool
ME	100004	CHINA TEL	PC	n/a	none
ME	100025	STANDISH TEL & MAINE TEL	PC	n/a	none
ME	103313	NORTHLAND TEL-ME & SIDNEY TEL	PC	n/a	none
VT	143331	FAIRPOINT-VT	PC	n/a	none
NY	150073	BERKSHIRE TEL	ROR	NECA	NECA
NY	150078	CHAUTAUQUA & ERIE	ROR	NECA	NECA
NY	150084	TACONIC TEL	ROR	NECA	NECA
PA	170185	MARIANNA-SCENERY HILL TEL	ROR	NECA	NECA
VA	190244	PEOPLES MUTUAL TEL	ROR	NECA	NECA
FL	210291	GTC, INC. (Florala)	ROR	NECA	NECA
FL	210329	GTC, INC. (Perry)	ROR	NECA	NECA
FL	210339	GTC, INC. (St. Joe)	ROR	NECA	NECA
OH	300618	GERMANTOWN INDEPENDENT	ROR	NECA	NECA
OH	300649	ORWELL TEL	ROR	NECA	NECA
IL	341004	EL PASO TEL	ROR	NECA	NECA
IL	341009	C-R TEL	ROR	NECA	NECA
IL	341065	ODIN TEL EXCH	ROR	NECA	NECA
KS	411835	SUNFLOWER TEL & BLUESTEM TEL	ROR	NECA	NECA
MO	421472	FAIRPOINT MISSOURI	ROR	NECA	NECA
OK	431981	CHOUTEAU TEL	ROR	NECA	NECA
CO	461835	SUNFLOWER TEL	ROR	NECA	NECA
CO	462192	BIG SANDY TELECOM	ROR	NECA	NECA
CO	462204	COLUMBINE ACQ CORP	ROR	NECA	NECA
ID	472222	FREMONT TELCOM	ROR	NECA	NECA
WA	522412	ELLENSBURG TEL	ROR	NECA	none
WA	522453	YCOM NETWORKS	ROR	NECA	none

4. In response to a request from Bureau staff, the table below shows year-by-year estimates of the potential revenue impact on FairPoint if it were to convert the FairPoint Cost Companies from the rate-of-return inter-carrier compensation ("ICC")

transition to the price cap ICC transition. The Petition was filed in February 2012. Since that time we have completed the required July 1 tariff changes to state termination switched access rates, we have established the Fiscal Year 2011 Baseline revenue calculations for each study area and, through participation in the NECA pool, we have established access recovery charge ("ARC") rates for each study area and CAF-ICC amounts for each study area.[1] Based on these filings, we have updated our estimate of the revenue impact of converting the FairPoint Cost Companies from the rate-of-return ICC transition to the price cap ICC transition. The rate-of-return and price cap transitions vary in a number of aspects, including speed of transition, length of transition, inclusion of total interstate switched access revenue requirements for rate-of-return ICC transition, and other differences. To some extent the impacts will depend on actual demand changes for interstate and state switched access and for ARC. The price cap ICC transition includes true-ups for ARC demand, while the rate-of-return transition includes true-ups for ARC demand as well as for state and interstate switched access demand. The rate-of-return ICC transition also includes originating demand for interstate services. Further, the calculation of Eligible Revenue for the price cap ICC transition includes a different baseline adjustment factor than the one that is used for rate-of-return ICC transitions. Taking into account all of these differences, I have estimated the likely impact on revenues if FairPoint were to use the price cap ICC transition instead of the rate-of-return ICC transition. The table below shows (i) the reduced state and interstate

[1] The ARC and CAF-ICC set by NECA are under investigation, and ARC rates and CAF-ICC for the FairPoint Cost Companies' study areas may change as a result of the FCC investigation. I do not believe these changes will materially alter the estimated impacts.

terminating switched access revenues under the price cap plan, based on a six-year transition instead of a nine-year transition; and (ii) the estimated reduction in CAF-ICC revenues arising from a faster amortization of the baseline revenue, with annual price cap baseline reductions for non-CALLS carriers at 10% instead of 5%.

Estimated Impact of Converting FairPoint Rate-of-Return ILECs to Price Cap ICC Transition -- Incremental Revenue Changes in $1,000s

[REDACTED]

5. If the Petition were not granted, FairPoint would not elect to convert its cost-based LECs to the ICC transition plan applicable to companies that are wholly under price caps, with the shortened period for switched access rate reductions applicable to those companies, rather than the ICC transition plan adopted for rate-of-return companies affiliated with price cap carriers. The cost to do so would be prohibitive. On a combined basis, I estimate that the company-wide impact would be approximately

[REDACTED]

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6. FairPoint is not able to estimate future special access demand for the FairPoint Cost Companies at this time. The demand data for special access includes many different variables, including channel terminations and channel mileage for each of voice

grade, DS1 and DS3 services, as well as other service elements such as bridging and multiplexing. Special access services also include carrier Ethernet services ("CES") and broadband Internet access services ("BIAS"). The different FairPoint Cost Companies do not all offer the same selection of special access services, and even when they offer the same services, their rates often vary. Each FairPoint Cost Company's rates depend in part on its participation in the NECA pool and the applicable NECA rate band.

7. Historical demand and revenue data is available. The attached spreadsheets show historical demand and revenue associated with the special access services offered by the FairPoint Cost Companies (pages 1 through 36) as well as the FairPoint LECs that converted to price caps from rate-of-return regulation in 2010 (pages 37 through 51). For consistency, data is provided for December 2009, December 2010 and December 2011[2]. The data show that there have been no consistent trends in special access demand for FairPoint's LECs. The data also show that when demand for a particular special access service increases, revenue generally increases as well; when demand decreases, revenue follows. Costs typically follow the same pattern as demand and revenues.

8. Bureau staff requested information regarding the financial impact on FairPoint of demand changes for special access. Under rate-of-return regulation, and assuming a 5% increase in demand associated with an interstate special access revenue requirement of approximately $5 million, net of DSL services, a 5% increase in demand

[2] Data for the LECs already converted to price caps is average monthly demand for each year, rather than data for the month of December each year.

would be reflected in approximately a 5% increase in interstate special access costs, **[REDACTED]** , as FairPoint's cost studies are not based on frozen factors and therefore demand changes in special access drive changes in direct assignments roughly equivalent to demand changes. Similarly, a 5% reduction in special access demand would result in approximately 5% less costs, and therefore a 5% reduction in revenue. Under price cap regulation, an equivalent result is achieved, through bill-and-keep mechanisms rather than through adjustments to cost studies. Under price cap mechanisms, a 5% increase in demand would be expected to result in a 5% increase in revenue and a 5% decrease in demand would be expected to result in a 5% decrease in revenue.

9. Upon grant of the Petition, FairPoint would have greater flexibility to lower its special access rates in all of the affected study areas, and thereby would be more likely to remain competitive with other carriers in these areas. While rates for carriers remaining in the NECA pools can be expected to increase, grant of FairPoint's petition still would produce a net benefit for consumers. In the first place, this is because FairPoint is proposing a consumer dividend of approximately **[REDACTED]** . In the second place, FairPoint believes that lower rates in the study areas of the FairPoint Cost Companies will likely spur broadband demand and improve FairPoint's incentives to deploy broadband capability, while higher rates in the areas served by the remaining NECA pooling companies could spur competitive entry. And FairPoint alone -- not the entire universe of customers purchasing out of the NECA pool -- bears the risk if demand in special

access services does not grow. This is one of the reasons the FCC and economists have supported LEC conversion to price caps for more than two decades.

The foregoing is true and complete to the best of my information, knowledge and belief, as of the date of this declaration.

September 28, 2012 *\/s\/ Michael T. Skrivan*

Attachment: Historical Special Access Demand & Revenue By Company (Excel Spreadsheet)